

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:6114
ANSWERED ON:27.04.2001
REVAMPING THE COOPERATIVE BANKING SYSTEM
CHANDRA NATH SINGH

Will the Minister of FINANCE be pleased to state:

- (a) whether the RBI has drawn a four pronged strategy to protect the banking system keeping in view the Madhavpura Mercantile Co-operative Bank scam;
- (b) if so, the details thereof;
- (c) whether the RBI is working with the Ministry of Finance to revamp the co-operative banking system;
- (d) if so, the details thereof; and
- (e) the other efforts made/being made to protect the banking system from scams in future?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL):

(a) to (e) Reserve Bank of India (RBI) in its credit policy for the year 2001-2002 has announced certain policy measures to strengthen the urban banking system. Some of these are (i) Urban Co-operative Banks (UCBs) not to entertain any fresh proposals for lending directly or indirectly against security of shares either to individuals or any other entity; (ii) to unwind the existing lendings to stock-brokers or direct investment in shares; (iii) in order to reduce the excessive reliance of some UCBs in the call money market the banks have been advised their borrowings in the call/notice money market on a daily basis to 2.0 per cent of their aggregate deposits as the end March of the previous financial year, etc. In the light of the recent experience, RBI is of the view that a new apex supervisory body need to be set up which can take over the entire inspection/supervisory functions of UCBs. RBI has introduced a system of off-site surveillance for scheduled urban cooperative banks prescribing certain returns to be submitted by banks to quarterly intervals for close monitoring and follow-up.